

## **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

### **Minutes**

**August 17, 2004**

The Capital Projects and Bond Oversight Committee met on Tuesday, August 17, 2004, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Leeper, Co-Chair; Representative Jodie Haydon, Co-Chair; Senators Tom Buford, Virgil Moore, and Jerry Rhoads; and Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the Committee: Tom Denton and Dewey Yeatts, Murray State University; Larry Owsley, University of Louisville; Bill Hintze, Governor's Office for Policy and Management; Jim Abbott and Steve Biven, Finance and Administration Cabinet; Warren Nash, Economic Development Cabinet; Sandy Williams, Kentucky Infrastructure Authority; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, Bart Hardin, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the July 20, 2004 meeting as submitted. The motion was seconded by Senator Moore and passed by voice vote.

Representative Haydon called on Ms. Collins to review correspondence and information items. Ms. Collins said members' folders contained three items of correspondence: correspondence from the Administrative Office of the Courts transmitting the Use Allowance Contingency Fund Report for Fiscal Year 2004; the Kentucky Lottery Corporation's monthly financial report for June 2004; and correspondence from Crit Luallen, Auditor of Public Accounts, in response to the Committee's inquiry relating to Audit of the Lease Law Compliance for the Years Ended June 30, 2002 and 2003.

Ms. Collins said the Auditor responded to the Committee's inquiry by noting that the statute directing her office to do a biennial audit only addresses leases procured by the Finance and Administration Cabinet. The letter suggested three alternatives for the Committee to consider if the Committee wants postsecondary leases audited: (1) amend the statute to include postsecondary education institutions in the audit; (2) identify to the

Finance Cabinet specific leases that the Committee may want to be included in a future audit; or (3) amend the statute that requires annual audits of postsecondary institutions to require specific examination of lease law compliance.

Representative Wayne asked that a copy of the Auditor's letter be sent to the universities with a request that they respond to the Committee concerning the Auditor's suggestions.

Ms. Collins said also included in Committee folders were two information items: correspondence from the University of Kentucky notifying the Committee they plan to use the Design-Build Delivery method for two projects, and a staff update on various capital projects.

Representative Marcotte noted that according to the Kentucky Lottery Commission's monthly report, sales were down substantially. He asked if the Lottery Corporation could provide a report to the Committee next month on lottery ticket sales projections for the next fiscal year. He said the new Tennessee lottery is affecting lottery sales in Kentucky, and he would like to know how much the state's revenue is expected to decline because of that situation. Representative Haydon asked the Committee's staff to relay this request to the Lottery Corporation.

Representative Haydon then asked Mr. Tom Denton, Vice President for Financial and Administrative Services, Murray State University (MuSU) and Dr. Dewey Yeatts, Chief Facilities Officer and Associate Vice President, MuSU, to discuss a project report for MuSU.

Mr. Denton said MuSU is requesting a scope increase of \$75,400 for the Equine Instruction Facility Addition project. The scope increase will be used to award a construction contract for this project, and will be paid from two sources: \$23,000 from the University's Facilities Management budget and \$52,400 from the Agriculture Improvement Fund.

Dr. Yeatts said the original equine instructional facility building was completed in September 1998. It contained 34,177 square feet and provided an equine instructional arena, but it did not contain classroom space or faculty offices. MuSU received authorization in the 2002-04 budget to build a 4,500 SF addition that would include faculty offices, classroom and locker room space, and a media/computer library center. The authorized scope at that time was \$920,600.

Senator Buford made a motion to approve the scope increase for the MuSU project. The motion was seconded by Senator Moore and passed by unanimous roll call vote. The revised project scope is \$996,000.

Mr. Larry Owsley, Vice President for Business Affairs, University of Louisville (UL), reported a scope increase and project modification for the UL Baseball Stadium Construction-Land Acquisition project. He said HB 269, 2003 General Assembly, authorized this project at a scope of \$5,900,000. The University is requesting a \$885,000 scope increase; the escalating price of steel is a major reason for the increase.

The University received authorization from the Council on Postsecondary Education to partially fund this project with bonds. Mr. Owsley said the University will sell \$3.6 million in bonds for the stadium, and the debt service will be paid from private donations. At the request of the Office of Financial Management, the bonds will be issued through one of the University's existing master bond indenture resolutions with its pledged revenue stream. The University will use private donations that they have on hand (\$3,185,000) to pay the rest of the stadium's cost. Mr. Owsley said the land acquisition portion of the project was authorized by the 2003 General Assembly for \$2,290,000. He said the University had recently submitted a request to increase the scope of this project as well, but has since concluded no increase is necessary since the acquisition cost was less than expected.

Mr. Owsley also reported a modification to the Baseball Stadium project. He said they are making a change in the location of the stadium. Originally, the University had planned to build the stadium at the south end of the football stadium parking lot and acquire some land adjacent to that to replace football parking. The University now proposes to build the stadium one block west of that area, but still within the same authorized dollar amount. He said UL plans to sell agency bonds for this project, consistent with the allocation from the Council on Postsecondary Education in March and May 2004.

Mr. Owsley noted that no bonds will be issued until a budget is enacted, and that the University will, during the interim, use private donations received to date and through an internal loan.

In response to questions from Representative Wayne, Mr. Owsley said the stadium will be located at the north-east corner of Third and Central Streets. He said UL will manage the project.

In response to a question from Senator Leeper, Mr. Owsley said cash in hand and pledges received will cover all the debt service payments required for the project.

Representative Wayne made a motion to approve the baseball stadium scope increase and project modification for the land acquisition. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote. The revised project scope for the baseball stadium project is \$6,785,000.

Representative Haydon asked Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, and Mr. James Abbott, Commissioner, Department for Facilities Management, to present the Finance Cabinet's monthly report to the Committee.

Mr. Hintze reported two allocations from the Emergency Repair, Maintenance and Replacement Account. The first allocation was \$28,000 for an emergency roof repair project for the Department of Military Affairs National Guard Armory in Bardstown. The roof was damaged by severe storms in July 2004. The second allocation from the Emergency Account was for \$350,000. The funds will be used to repair storm damage at the Kentucky Fair and Exposition Center and Cardinal Stadium. Mr. Hintze said in both cases, they will seek recovery of these funds through insurance proceeds and the Emergency Account will be fully reimbursed. Representative Haydon said allocations from the Emergency Account must be reported to the Committee within 30 days. No further Committee action is required.

Mr. Steve Biven, Director for the Division of Real Properties, presented a lease consolidation/modification report, an emergency lease, and a report of state leases with square footage modifications from April through June 2004.

Mr. Biven reported that the Cabinet for Health and Family Services in Kenton County plans to consolidate two leases. This consolidation will result in a net annual savings of \$63,000. Representative Haydon said this modification did not require Committee action.

Mr. Biven next reported an emergency lease for the Department of Military Affairs, Emergency Response Board. He said the agency's leased property on Shelby Street in Frankfort had recurring mold issues that continued to be a problem. Emergency space was sought at a location where the agency was already leasing property – Pine Hill Plaza, Louisville Road. The annual cost of the lease is \$17,825. Mr. Biven said the rate of \$4.60 per SF was extremely low and since the landlord offered the space at the same rate as the existing leases, a competitive bid was not required. He noted that this lease contains more space than the agency's previous lease, and said the additional space will be utilized as swing space for staff moving out of the VETS Building at the Boone National Guard Center. Emergency leases are required to be reported to the Committee within 30 days of execution, but no Committee action is required.

Mr. Biven presented a report of state leases with square footage modifications. He said of the six lease modifications, five of those reduced state leased space, which resulted in approximately \$45,000 in savings and a reduction of approximately 6,000 SF. Representative Marcotte said he could not remember a meeting in which so many lease modifications were reported that involved reduced costs, and he commended the Finance

Cabinet. Representative Haydon said since the modifications are under \$50,000, this project did not require Committee action.

Representative Haydon asked Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Economic Development Cabinet, to report on one Economic Development Bond (EDB) project. Mr. Nash reported a grant of \$200,000 to the Laurel County Fiscal Court, to benefit ABC Automotive Systems, Inc. The company is engaged in the research, development, design, and manufacturing and assembly of automotive parts. It also provides a complete line of thermo-plastic systems and components to automotive original equipment manufacturers and tier 1 suppliers.

Mr. Nash said ABC is in the process of acquiring an existing facility on 22 acres of land and purchasing \$11.5 million in equipment. The EDB funds will be used to help offset a portion of the cost associated with the project. In return for the grant, the company will be required to create 150 new full-time jobs within two years of grant disbursement and maintain these jobs for three years. If they do not create or maintain these jobs, the company will be required to pay the Laurel County Fiscal Court \$1,333 for each job not created or maintained.

Representative Wayne asked if the bond money being used for this grant was from bonds issued during the previous fiscal year. Mr. Nash said there was a plan of finance that was put in place prior to the end of the fiscal year. These were done on a receivable basis, and bonds are subsequently issued to replenish those funds.

Representative Wayne asked if the bonds were previously issued, and Mr. Nash responded affirmatively.

Senator Leeper made a motion to approve the EDB grant. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Mr. Nash next presented the Economic Development Cabinet's Annual Report on the EDB Pool Program Monitoring of Jobs Creation/Payback Requirements. He said with the exception of one grant agreement, each of the companies is in compliance with the terms and conditions of the grant agreement or they have made the appropriate repayment to the community as required by the grant agreement.

In response to a question from Senator Buford, Mr. Nash said Worldwide Equipment/Floyd County is the only company out of compliance with the terms of the grant agreement. He said the company's agreement states they are to maintain 40 jobs and create 15, but they have only created seven. Worldwide Equipment will have to make a repayment of \$31,815 to the Floyd County Fiscal Court for the second year in a row.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), next reported one new Fund A loan request. Ms. Williams reported a \$30,606,750 loan for Sanitation District No. 1 in Kenton County. The proceeds will be used to construct a new wastewater treatment plant.

Representative Marcotte said this project is needed, and they have had to declare a moratorium on development in portions of Campbell County until this new plant is built.

Senator Buford asked if KIA has any reservations about making such a large loan since this loan will consume 25% of the funds in the Fund A program available for loans. Ms. Williams said KIA has additional federally-funded capitalization grants that will be available soon: the federal fiscal year (FFY) 2003 grant for approximately \$20 million (\$16.8 million in federal funds matched by \$3.4 million in state funds) that will be awarded October 1; the federal fiscal year 2004 capitalization grant for \$16 million, (which KIA could apply for if there is a demand for the funds); and the federal fiscal year 2005 capitalization grant that will be available October 1 or as soon as the federal budget for that year is passed.

Senator Buford noted that KIA plans to transfer \$25 million from the Fund A program (wastewater) to the Fund F program (drinking water). He asked if this will cause any problems for Fund A. Ms. Williams said based on the demand for wastewater loans compared to the demand for drinking water loans, KIA feels that citizens would be better served by making the transfer.

In response to a question from Representative Wayne, Ms. Williams said the funds for these loans came from federal Environmental Protection Agency capitalization grants and previously issued bond funds authorized for state fiscal years 2002 and 2003.

Representative Marcotte made a motion to approve the KIA Fund A loan. The motion was seconded by Senator Moore and passed by unanimous roll call vote.

Ms. Williams said included in members' folders were reports from KIA regarding new Tobacco and Coal Development Grants. No further action was required on these projects.

In response to a question from Representative Wayne, Ms. Williams said all the money for the tobacco and coal development grants was authorized in the most recently passed budget (April 2003).

The next report was provided by Mr. Tom Howard, Acting Executive Director, Office of Financial Management (OFM). Mr. Howard reported one new bond issue: Kentucky Economic Development Finance Authority (KEDFA) Medical Center Revenue Improvement Bonds, Series 2004 (Ashland Hospital Corporation d/b/a King's Daughters

Medical Center project). The proceeds from this bond issue, \$45,000,000, will be used to finance the construction and equipping of an expansion and general renovations to the hospital facility.

Senator Buford made a motion to approve the new KEDFA bond issue. The motion was seconded by Senator Moore and passed by unanimous roll call vote.

Mr. Howard said also included in members' folders were two follow-up reports for previously issued bonds: Kentucky Asset/Liability Commission General Fund Tax and Revenue Anticipation Notes, 2004 Series A (Fixed Rate) \$506,865,000; and Kentucky Infrastructure Authority Governmental Agencies Program Revenue Refunding and Improvement Bonds, Series 2004A and Taxable Revenue Refunding Bonds, Series 2004B, \$43,015,000. Representative Haydon said no action was required for these reports.

Mr. Howard presented one new school bond refunding with School Facilities Construction Commission debt service participation for Nelson County.

Representative Wayne made a motion to approve the new school bond issue. The motion was seconded by Senator Buford and passed by unanimous roll call vote.

Representative Haydon said there were two locally-funded school bond issues submitted to the Committee for review this month: Hancock County and Owsley County. He said all disclosure information has been filed, and no further action on the bond issues is required.

Representative Haydon said the Committee's next meeting is scheduled for September 21.

With there being no further business, Representative Marcotte made a motion to adjourn the meeting. The motion was seconded by Senator Rhoads, and the meeting adjourned at 1:45 p.m.